

U.S. Army ammunition plants and Department of Energy installations. The most noteworthy contracts include:

- Six Strategic Petroleum Reserve sites located in Texas and Louisiana.
- The Savannah River Plant in South Carolina.
- The Nevada Test Site.
- The Lake City Army Ammunition Plant in Missouri.
- The Holston Army Ammunition Plant in Tennessee.

#### Corrections Privatization--

##### An Emerging Concept With Promising Long-Term Potential

As a further diversification move, Wackenhut has recently entered the emerging corrections privatization field. Management had been monitoring developments in this area for some time. In 1986, a contract with the Immigration and Naturalization Service (INS) was awarded to the company for the design, construction, financing, and management of a 167-bed detention facility located in Aurora, Colorado (commenced operations in mid-1987).

The forces are in place. We have written extensively on the promising long-term growth opportunities we see in the field of corrections privatization through our research coverage of Corrections Corporation of America (CCAX--\$6 5/8; rated 2-1). While the concept is clearly innovative and, admittedly, controversial, it appears to be gradually gaining acceptance among government agencies. We identify the following forces as having a positive impact upon the future growth of corrections privatization:

- o Facility overcrowding. Many correctional jurisdictions (prisons and jails) are under court order to relieve facility overcrowding. Current inmate population trends indicate a continuation of capacity-constrained pressures considering that general public opinion favors longer sentences and longer incarceration of convicted criminals.
- o Fiscal constraints. Budget considerations at many state and local governments are inducing cost-saving measures. Given the demand for new and/or refurbished facilities, it will be difficult for many jurisdictions to adequately improve their corrections systems. Limited revenue raising and financing ability compounds the current dilemma.

On the learning curve. Currently, WCC has 1,604 beds under contract (see Table 4) and 404 beds under active management. Another 300 beds are in the wings pending final contract negotiations. WCC intends to respond to proposals covering more than 2,000 additional beds over the next few months. According to



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Securities

our estimates, WCC may generate about \$12 million of revenues from current beds under contract in 1989, excluding the 300 beds pending contract negotiation--about 3% of our total 1989 overall Wackenhut estimated revenues. We think that potential beds under contract (1,904 beds) are capable of providing \$21-\$23 million of revenues on an annual basis once fully operational.

We consider WCC to be in a start-up phase. We estimate that these operations are currently unprofitable and that the potential pretax earnings contribution of WCC to the parent company will be immaterial over the next 12-18 months. Essentially, WCC is now building an organizational infrastructure to support long-term business development. Given the company's expertise in providing security services and management's reputation among various government agencies, we think that Wackenhut's chances of success in pursuing new business opportunities are high.

A well-capitalized, established company... We believe that management is determined to be a major factor in the emerging corrections privatization field. Furthermore, Wackenhut is a well-capitalized, established company with the adequate financial resources and patience to make a commitment to such a business over the next few years.

...adds credibility to the field. The presence of a company like Wackenhut will serve to further the acceptance of corrections privatization among government agencies, in our opinion. This is a crucial aspect of new business development for this entire emerging industry.



May 11, 1990

BD/CW/SR - 07

Wackenhut Corporation (NYSE: 27-WAK)

52-Week Range	Earnings Per Share			P/E Multiples		Market Cap
	1989	1990	1991E	1990	1991E	
\$29-17	\$1.52	\$1.80	\$2.15	15.0x	12.6x	\$100 mil.

Wackenhut reported earnings for its March 31, 1990 quarter in line with expectations, with e.p.s. reaching \$0.33 compared to \$0.23 in the year earlier period. The March 1989 period was depressed by competitive conditions in the guard business. For the balance of the year we look for continued earnings gains, although at a more moderate pace. The June 1989 quarter benefitted from increased margin strike business and the start of new contracts in the quarter. We thus expect revenues to slow somewhat year-over-year from the gain of 18% in the first quarter. We see June quarter e.p.s. of about \$0.45 versus \$0.40 in the quarter one year earlier. We add the caveat that Wackenhut's low margins mean e.p.s. can fluctuate substantially from quarter-to-quarter.

At Wackenhut's recent annual meeting, Mr. George Wackenhut, the company's Chairman, indicated that the company's private prison business should reach \$30 million in 1990, up from \$18 million in 1989. The corrections business is now profitable and we look for the further improvement in 1990. The limiting factor will be marketing expenses that the division incurs as it pursues new business. The division should contribute significantly to profits in 1991, as we look for revenue to reach an estimated \$50 million. While the shares are not especially cheap at 15X our 1990 e.p.s. estimate, we believe the company has excellent prospects in the prison business and is improving the profitability of its guard business. We also think that Wackenhut shares will be more insulated from the fits and starts of the developing private prison market than the pure-play public companies, Corrections Corporation of America (OTC: 11-CCAX) and Prisor (OTC: 8-PRCO).

Mark A. Broach

Additional information is available upon request.



Update: January 15, 1990

## I IDENTIFICATION

### COMMON NAME

- 1,1,1-TRICHLOROETHANE

### CAS REGISTRY NUMBER

- 71-55-6

### CHEMICAL STRUCTURE



### CHEMICAL NAME

- Ethane, 1,1,1-trichloro-

### MOLECULAR FORMULA

- C<sub>2</sub>H<sub>3</sub>Cl<sub>3</sub>

### RTECS NUMBER

- NIOSH/KJ2975000

### SHIPPING NAME AND NUMBER

- UN 2831; 1,1,1-Trichloroethane
- IMO 6.1; 1,1,1-Trichloroethane